

CITY OF BONHAM, TEXAS

COMMUNICATION WITH THOSE
CHARGED WITH GOVERNANCE

SEPTEMBER 30, 2013

McClanahan and Holmes, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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Communication with Those Charged with Governance

Honorable Mayor and Members
of the City Council
City of Bonham, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Bonham, Texas (the City) for the year ended September 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and Government Auditing Standards and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 11, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Bonham are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the audit period. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the City's financial statements was:

Management's estimate of depreciation expense. Depreciation expense is calculated on a straight-line basis, over the estimated useful lives of the city's assets. We evaluated the key factors and assumptions used to develop the depreciation method used and the estimates of useful lives of the assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear. There are no disclosures that are considered sensitive because of their significance to the financial statement users.

Honorable Mayor and Members
of the City Council
City of Bonham, Texas
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Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached misstatements detected as a result of audit procedures were corrected by management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 7, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Honorable Mayor and Members
of the City Council
City of Bonham, Texas
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This report is intended solely for the information and use of the City's management and council and is not intended to be, and should not be, used by anyone other than these parties.

McClanahan and Hulme, LLP
Certified Public Accountants

February 7, 2014
Bonham, Texas

CITY OF BONHAM, TEXAS
Misstatements Corrected by Management
September 30, 2013

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 1			
111-00-1110	Cash - Drug Investigation	\$ 10,756.00	\$ -
111-12-6395	Misc. Expenses - Drug Investigation	5,116.00	-
111-00-3105	Fund Balance - Drug Investigation	-	9,906.00
111-00-5495	Misc. Revenue - Drug Investigation	-	5,966.00
Total		<u>\$ 15,872.00</u>	<u>\$ 15,872.00</u>
Adjusting Journal Entries JE # 2			
203-00-1214	Water/Sewer Accts. Receivable	\$ 130,600.00	\$ -
203-00-1240	Allowance for Uncoll. Accounts	-	345.00
203-00-5205	Revenue Water & Sewer F	-	130,255.00
Total		<u>\$ 130,600.00</u>	<u>\$ 130,600.00</u>
Adjusting Journal Entries JE # 3			
103-00-1223	A/R - Garbage	\$ 499.00	\$ -
103-00-7005	Waste Col. Fee - City	-	499.00
Total		<u>\$ 499.00</u>	<u>\$ 499.00</u>
Adjusting Journal Entries JE # 4			
103-00-3115	Fund Balance - General Fund	\$ 351,567.00	\$ -
103-00-3105	General Operating Fund	-	351,567.00
Total		<u>\$ 351,567.00</u>	<u>\$ 351,567.00</u>
Adjusting Journal Entries JE # 5			
112-00-3105	Police Fines - Fund Balance	\$ 12,897.00	\$ -
112-00-3115	Fund Balance - Police Fines	-	12,897.00
Total		<u>\$ 12,897.00</u>	<u>\$ 12,897.00</u>
Adjusting Journal Entries JE # 6			
113-00-3115	Unreserved Fund Balance-H/M	\$ 8,862.00	\$ -
113-00-3105	Hotel Occy Fund	-	8,862.00
Total		<u>\$ 8,862.00</u>	<u>\$ 8,862.00</u>
Adjusting Journal Entries JE # 7			
116-00-3115	EMS - Fund Balance	\$ 373,431.00	\$ -
116-00-3105	EMS - Retained Balance	-	373,431.00
Total		<u>\$ 373,431.00</u>	<u>\$ 373,431.00</u>
Adjusting Journal Entries JE # 8			
123-00-3115	Fund Balance - Airport	\$ 16,386.00	\$ -
123-00-3105	Airport Fund Balance	-	16,386.00
Total		<u>\$ 16,386.00</u>	<u>\$ 16,386.00</u>

CITY OF BONHAM, TEXAS
Misstatements Corrected by Management
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Account	Description	Debit	Credit
Adjusting Journal Entries JE # 9			
143-00-3115	Fund Balance-Lake Land	\$ 136,616.00	\$ -
143-00-3105	Lake Bonham Fund Balance	-	136,616.00
Total		\$ 136,616.00	\$ 136,616.00
Adjusting Journal Entries JE # 10			
153-00-3115	Fund Balance-Ad Val Debt	\$ 75,391.00	\$ -
153-00-3105	Ad Valorem Debt Serv	-	75,391.00
Total		\$ 75,391.00	\$ 75,391.00
Adjusting Journal Entries JE # 11			
203-00-3105	Water/Sewer Fund Balance	\$ 3,551,727.00	\$ -
203-00-3115	Fund Balance - W/S Fund	-	3,551,727.00
Total		\$ 3,551,727.00	\$ 3,551,727.00
Adjusting Journal Entries JE # 12			
213-00-3115	Fund Balance-Uty Cap Proj	\$ 6,450,297.00	\$ -
213-00-3105	Uty Cap Proj Fund Retained Bal	-	6,450,297.00
Total		\$ 6,450,297.00	\$ 6,450,297.00
Adjusting Journal Entries JE # 13			
233-00-3105	Meter Deposits	\$ 70,128.00	\$ -
303-00-3115	Fund Balance-Gen Reserve	440,992.00	-
313-00-3115	Fund Balance - Gen Cap Project	771,418.00	-
363-00-3115	Uty Op Reserve Fund Balance	383,596.00	-
373-00-3115	Uty Cap Project - Fund Balance	1,239,365.00	-
413-00-3105	Employee Health Insurance Fund	12,208.00	-
423-00-3115	Fund Balance-Vol Fire Incent	123,794.00	-
233-00-3115	Fund Balance - Meter Deposit	-	70,128.00
303-00-3105	Gen Unapp Reserve Fund	-	440,992.00
313-00-3105	Gen Capital Projects Fund	-	771,418.00
363-00-3105	Utility Operating Reserve	-	383,596.00
373-00-3105	Utility Capital Proj Fund	-	1,239,365.00
413-00-3115	Unreserved Fund Balance	-	12,208.00
423-00-3105	Volunteer Fire Incentive Fund	-	123,794.00
Total		\$ 3,041,501.00	\$ 3,041,501.00
Adjusting Journal Entries JE # 14			
113-00-1214	Accounts Receivable-Hotel Occy	\$ 2,677.00	\$ -
113-00-5905	Hotel Occupancy Tax	-	2,677.00
Total		\$ 2,677.00	\$ 2,677.00

CITY OF BONHAM, TEXAS
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Account	Description	Debit	Credit
Adjusting Journal Entries JE # 16			
153-25-6801	Debt Payment - Ad Val I	\$ 9,293.00	\$ -
213-00-6102	Transfer to Ad Valorem I&S	9,293.00	-
153-00-8888	Transfer from Utility	-	9,293.00
213-37-6801	Debt Payment - Uty I&S	-	9,293.00
Total		<u>\$ 18,586.00</u>	<u>\$ 18,586.00</u>
Adjusting Journal Entries JE # 17			
213-00-2234	Accrued Int Payable - 2005 GO	\$ 159.00	\$ -
213-00-2235	Acc. Int. Payable- 2004 Refund	2,126.00	-
213-00-2243	2004 Refunding Bonds	417,600.00	-
213-00-2250	2005A Series CO'S	85,000.00	-
213-00-2251	2006 Series CO's	245,000.00	-
213-00-2252	2005 GO Refunding & Imp Bonds	29,669.00	-
213-37-6801	Debt Payment - Uty I&S	-	779,554.00
Total		<u>\$ 779,554.00</u>	<u>\$ 779,554.00</u>
Adjusting Journal Entries JE # 18			
213-00-3105	Uty Cap Proj Fund Retained Bal	\$ 239,788.00	\$ -
213-37-6802	Amortization Expense	25,600.00	-
213-00-1392	Issuance Cost	-	239,788.00
213-00-2244	Discount - 2004 Refunding Bond	-	25,600.00
Total		<u>\$ 265,388.00</u>	<u>\$ 265,388.00</u>
Adjusting Journal Entries JE # 19			
313-05-6900	Bond Issuance Costs	\$ 36,191.00	\$ -
313-05-5201	Proceeds - 2013 CO Fund	-	36,191.00
Total		<u>\$ 36,191.00</u>	<u>\$ 36,191.00</u>
Adjusting Journal Entries JE # 20			
213-03-5601	Proceeds 2006 Water Imp	\$ 255,000.00	\$ -
213-00-2251	2006 Series CO's	-	255,000.00
Total		<u>\$ 255,000.00</u>	<u>\$ 255,000.00</u>
Adjusting Journal Entries JE # 21			
203-31-6105	Water Adm. Reg.	\$ 5,117.00	\$ -
203-00-2191	Accumulated Comp. Absences	-	5,117.00
Total		<u>\$ 5,117.00</u>	<u>\$ 5,117.00</u>
Adjusting Journal Entries JE # 22			
116-16-6105	EMS Regular	\$ 6,777.00	\$ -
116-00-2191	Compensated Absences Payable	-	6,777.00
Total		<u>\$ 6,777.00</u>	<u>\$ 6,777.00</u>

CITY OF BONHAM, TEXAS
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Account	Description	Debit	Credit
Adjusting Journal Entries JE # 23			
103-00-1213	Taxes Receivable	\$ 13,053.00	\$ -
153-00-1213	Taxes Receivable-Ad Val Debt	525.00	-
103-00-1240	Allowance for Uncoll. Accounts	-	3,915.00
103-00-2410	Deferred Revenue	-	9,138.00
153-00-1241	Allow for Uncoll. Taxes-Ad Val	-	105.00
153-00-2410	Deferred Revenue-Ad Val Debt	-	420.00
Total		<u>\$ 13,578.00</u>	<u>\$ 13,578.00</u>
Adjusting Journal Entries JE # 24			
103-00-1216	Other Taxes Receivable-Sales	\$ 8,326.00	\$ -
103-00-5120	Sales Tax	-	8,326.00
Total		<u>\$ 8,326.00</u>	<u>\$ 8,326.00</u>
Adjusting Journal Entries JE # 25			
103-00-2411	Deferred Revenue Franchise Tax	\$ 1,206.00	\$ -
103-00-5130	Oncor Electric Franchis	3,619.00	-
103-00-5140	Verizon Telephone Franc	1,325.00	-
103-00-5145	Cable One TV Franchise	126.00	-
103-00-7205	Franchise Fee Roll On/R	904.00	-
103-00-1217	Other Taxes Receivbl-Franchise	-	2,735.00
103-00-5135	Atmos Energy Gas Franch	-	3,943.00
103-00-5141	Other Telephone Franchi	-	502.00
Total		<u>\$ 7,180.00</u>	<u>\$ 7,180.00</u>
Adjusting Journal Entries JE # 26			
103-11-6105	Base Salaries	\$ 602.00	\$ -
103-11-6105	Base Salaries	1,825.00	-
103-12-6105	Police Reg. Pay	5,354.00	-
103-13-6105	Fire Dept. Wages	1,354.00	-
103-17-6105	Equip. Ser. Reg.	167.00	-
103-18-6105	St Dept Regular	1,505.00	-
103-19-6105	Library Reg.	511.00	-
103-20-6105	P & R Regular	548.00	-
103-23-6105	Lake Regular	66.00	-
103-00-2113	GF Payroll Payable	-	11,141.00
103-11-6105	Base Salaries	-	791.00
Total		<u>\$ 11,932.00</u>	<u>\$ 11,932.00</u>

CITY OF BONHAM, TEXAS
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Account	Description	Debit	Credit
Adjusting Journal Entries JE # 27			
116-16-6105	EMS Regular	\$ 4,614.00	\$ -
203-31-6105	Water Adm. Reg.	1,687.00	-
203-32-6105	Water Dist. Reg.	537.00	-
203-34-6105	WWC Base Salaries	65.00	-
116-00-2113	EMS Payroll Payable	-	4,614.00
203-00-2113	WS Payroll Payable	-	2,289.00
Total		<u>\$ 6,903.00</u>	<u>\$ 6,903.00</u>
Adjusting Journal Entries JE # 28			
413-00-2118	Employee Ins. Claims Payable	\$ 59,189.00	\$ -
413-51-6322	Medical Claims	-	59,189.00
Total		<u>\$ 59,189.00</u>	<u>\$ 59,189.00</u>
Adjusting Journal Entries JE # 29			
103-00-2111	Accounts Payable - Other	\$ 65,890.00	\$ -
103-00-5595	Misc Service Revenue	150.00	-
103-04-6513	#729061 Soccer Fields	9,000.00	-
103-11-6210	Minor Supplies	119.00	-
103-11-6367	Waste Collection Contra	80,914.00	-
103-13-6210	Fire Minor Supplies	667.00	-
103-23-6210	Lake Minor Supplies	666.00	-
103-01-6502	#1001225 OOA Adm Fees	-	69,188.00
103-11-6210	Minor Supplies	-	63,656.00
103-12-6210	Police Minor Supplies	-	6,229.00
103-13-6210	Fire Minor Supplies	-	2,001.00
103-14-6210	VFD Minor Supplies	-	878.00
103-17-6210	ES Minor Supplies	-	88.00
103-18-6210	St Dept Minor Supplies	-	5,437.00
103-19-6210	Library Minor Supplies	-	156.00
103-20-6210	P & R Minor Supplies	-	9,773.00
Total		<u>\$ 157,406.00</u>	<u>\$ 157,406.00</u>
Adjusting Journal Entries JE # 30			
112-00-2111	Accounts Payable - Other	\$ 1,485.00	\$ -
112-12-6395	Miscellaneous Expense	-	1,485.00
Total		<u>\$ 1,485.00</u>	<u>\$ 1,485.00</u>
Adjusting Journal Entries JE # 31			
113-41-6210	Minor Supplies	\$ 1,296.00	\$ -
113-00-2111	Accounts Payable-Other	-	1,296.00
Total		<u>\$ 1,296.00</u>	<u>\$ 1,296.00</u>

CITY OF BONHAM, TEXAS
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Account	Description	Debit	Credit
Adjusting Journal Entries JE # 32			
116-00-2111	Accounts Payable-Other	\$ 21,592.00	\$ -
116-16-6210	EMS Minor Supplies	-	21,592.00
Total		<u>\$ 21,592.00</u>	<u>\$ 21,592.00</u>
Adjusting Journal Entries JE # 33			
123-42-6210	Airport Minor Supplies	\$ 818.00	\$ -
123-00-2111	Accounts Payable - Other	-	818.00
Total		<u>\$ 818.00</u>	<u>\$ 818.00</u>
Adjusting Journal Entries JE # 34			
203-30-6201	Water Purchase - NTMWD	\$ 13,597.00	\$ -
203-32-6210	Water Dist Minor Suppli	24,594.00	-
203-35-6201	O & M Fees - WWTP	3,678.00	-
203-00-2111	Accounts Payable - W/S Other	-	35,053.00
203-00-5795	Misc Reimbursements	-	268.00
203-31-6210	Water Admin Minor Suppl	-	2,113.00
203-34-6210	WWC Minor Supplies	-	4,435.00
Total		<u>\$ 41,869.00</u>	<u>\$ 41,869.00</u>
Adjusting Journal Entries JE # 36			
143-00-5664	Rev Lake Bonham Lease P	\$ 13,192.00	\$ -
143-00-1218	Lease Rental Receivable	-	13,192.00
Total		<u>\$ 13,192.00</u>	<u>\$ 13,192.00</u>
Adjusting Journal Entries JE # 37			
203-00-1310	Inventory - Water/Sewer	\$ 18,430.00	\$ -
203-31-6210	Water Admin Minor Suppl	-	18,430.00
Total		<u>\$ 18,430.00</u>	<u>\$ 18,430.00</u>
Adjusting Journal Entries JE # 38			
116-00-1242	EMS Allow for Uncollected Acct	\$ 3,747.00	\$ -
116-00-5535	EMS Intermedix, Inc.	11,241.00	-
116-00-1214	EMS Accounts Receivable	-	14,988.00
Total		<u>\$ 14,988.00</u>	<u>\$ 14,988.00</u>

CITY OF BONHAM, TEXAS
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Account	Description	Debit	Credit
Adjusting Journal Entries JE # 39			
213-00-2200	Contracts Payable	\$ 273,712.00	\$ -
213-00-2201	Retainage Payable	52,798.00	-
213-02-6445	Consult / Professional	2,036.00	-
213-03-6438	Water Meter-Fixed Read	55,147.00	-
213-00-2200	Contracts Payable	-	2,036.00
213-00-2201	Retainage Payable	-	55,147.00
213-02-6444	Contractor Payments	-	119,800.00
213-02-6445	Consult / Professional	-	23,665.00
213-03-6439	Water Storage Repair/Pa	-	126,050.00
213-03-6444	WTP Construction	-	56,995.00
Total		<u>\$ 383,693.00</u>	<u>\$ 383,693.00</u>
Adjusting Journal Entries JE # 40			
213-02-5602	From 2005A Sewer Escrow	\$ 315,991.00	\$ -
213-01-6101	Transfer to Constructio	-	315,991.00
Total		<u>\$ 315,991.00</u>	<u>\$ 315,991.00</u>
Adjusting Journal Entries JE # 41			
103-01-5101	#1001225 OO Asst. Reimb	\$ 69,891.00	\$ -
103-02-5010	GDEM 2011 SHSP Revenue	11,521.00	-
103-00-1285	Due from Home Grant	-	69,891.00
103-00-1286	Due from GDEM 2008 LETPP	-	11,521.00
Total		<u>\$ 81,412.00</u>	<u>\$ 81,412.00</u>
Adjusting Journal Entries JE # 42			
103-11-6210	Minor Supplies	\$ 434.00	\$ -
423-00-1281	Due from General Fund	626.00	-
103-00-2173	Due to Other Funds	-	434.00
423-00-5295	Revenue Interest Earned	-	626.00
Total		<u>\$ 1,060.00</u>	<u>\$ 1,060.00</u>
Adjusting Journal Entries JE # 43			
116-00-1305	EMS Fixed Assets	\$ 100,532.00	\$ -
116-16-6315	EMS Vehicle Maintenance	-	13,157.00
116-16-6706	EMS Vehicle Purchase	-	87,375.00
Total		<u>\$ 100,532.00</u>	<u>\$ 100,532.00</u>
Adjusting Journal Entries JE # 44			
116-16-6730	Depreciation Expense	\$ 93,480.00	\$ -
116-00-1390	Accumulated Depreciation	-	93,480.00
Total		<u>\$ 93,480.00</u>	<u>\$ 93,480.00</u>

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Account	Description	Debit	Credit
Adjusting Journal Entries JE # 45			
203-00-1305	Fixed Assets - Water/Sewer	\$ 54,300.00	\$ -
203-32-6707	Equipment Purchase	-	8,850.00
203-34-6310	WWC Equipment Maint	-	45,450.00
Total		<u>\$ 54,300.00</u>	<u>\$ 54,300.00</u>
Adjusting Journal Entries JE # 46			
203-88-8888	Depreciation Expense	\$ 683,058.00	\$ -
203-00-1390	Accumulated Depreciation -W/S	-	683,058.00
Total		<u>\$ 683,058.00</u>	<u>\$ 683,058.00</u>
Adjusting Journal Entries JE # 47			
213-00-1305	Fixed Assets	\$ 2,173,603.00	\$ -
213-00-1306	Construction in Progress	-	1,978,872.00
213-02-6444	Contractor Payments	-	40,045.00
213-02-6445	Consult / Professional	-	24,530.00
213-03-6438	Water Meter-Fixed Read	-	112,122.00
213-03-6439	Water Storage Repair/Pa	-	13,000.00
213-03-6445	Consult / Professional	-	5,034.00
Total		<u>\$ 2,173,603.00</u>	<u>\$ 2,173,603.00</u>
Adjusting Journal Entries JE # 48			
116-16-6706	EMS Vehicle Purchase	\$ 35,000.00	\$ -
116-01-6501	DSHS Grant Expense	-	35,000.00
Total		<u>\$ 35,000.00</u>	<u>\$ 35,000.00</u>
Adjusting Journal Entries JE # 49			
103-13-6710	Firehouse Payment	\$ 25,435.00	\$ -
103-00-5706	Transfer From EMS	-	25,435.00
Total		<u>\$ 25,435.00</u>	<u>\$ 25,435.00</u>